

BFC to report strong FY22 earnings growth.

BFC had a busy year in FY21. It:

- increased its milk supply by 32% to ~146 million litres (ML),
- sold its dairy farms for ~\$39m (net of costs),
- secured a contract to supply McCains with 3,600 tonnes per annum (tpa) of mozzarella for over \$20m p.a. (over ~\$5,500/t,
- expanded its lactoferrin production capacity from 3 to 25 tpa,
- raised \$15.6m of new capital to fund production expansion and infrastructure upgrades,
- received a \$2m grant from the South Australian Government for the lactoferrin expansion, and
- terminated its investment management agreement (IMA) on 28 August 2021.

BFC has provided FY22 Guidance

- Contracted milk supply up ~6% to 152-158 ML, (MST 155 ML)
- Mozzarella production up ~28% to 15-16,000 t, (MST 15,500 t). Over 50% of production in FY22 is under term contract. With regular repeat customers accounts ~85% is accounted for.
- Lactoferrin production up ~500% to 18.5 - 21.5 t, (MST 18 t)
- Revenue expected up ~54% to \$160-185 m (MST \$155.8m)

FY21 result impacted by COVID and operational issues at its Jervois dairy factory

BFC noted that in FY22 ~\$19m of additional costs and lost revenue resulted from the impacts of COVID (~\$6.3m) and reliability issues at the Jervois factory (\$12.7m). The reliability issues have largely been resolved. Forecast capex in FY22 of \$13m-\$18m will see a second boiler and a second Multivac installed which will complete all the risk mitigation actions BFC has put in place to resolve the infrastructure capability at Jervois.

Financial forecast revisions; BFC to be NPAT positive in FY22

BFC has guided the market to a FY22 group revenue of \$160-185m. We have adjusted our sales and gross margin forecasts post the full result release. Our sales forecasts are up 7% in FY22 and FY23 reflecting higher forecast mozzarella and lactoferrin production. We have lowered our forecast gross margins achieved by ~1% which has resulted in our FY22 and FY23 earnings forecasts being up 5% and 0% respectively.

Valuation

We have rolled forward our 12 month forward discounted cash flow valuation which is unchanged at \$0.30. Our forecasts reflect an increase in milk supply to 180 ML by FY24 (up 23% on FY21) that will allow up to 25 tpa of lactoferrin production.

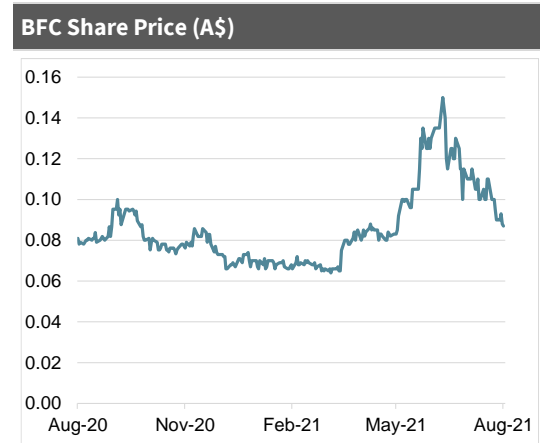


Beston Global Food (BFC) owns and operates a portfolio of food and beverage businesses. Its primary operations are now focussed on dairy and meat. The dairy segment owns production plants and uses milk to produce mozzarella cheese, whey powder, lactoferrin and other dairy products. The meat segment is focused on production of meat and related products for domestic and export markets.

<https://bestonglobalfoods.com.au/>

Stock	BFC.ASX
Price	A\$0.09
Market cap	A\$77m
Valuation	A\$0.30

Near term catalysts	
1H 22	Lactoferrin sales contracts
Ongoing	New milk supply agreements



Source: FactSet

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Beston Global Food Financial Forecasts

Beston Global Food						BFC-AU							
Year end 30 June													
MARKET DATA						12 month relative performance versus S&P/ASX Small Ordinaries							
Price	\$					0.09							
52 week high / low	\$					0.15 - 0.06							
Valuation	\$					0.30							
Market capitalisation	\$m					76.7							
Shares on issue (basic)	m					842.7							
Options / Performance shares	m					0.0							
Issuance for IMA termination	m					21.1							
Potential shares on issue (diluted)	m					863.8							
INVESTMENT FUNDAMENTALS		FY20	FY21	FY22E	FY23E	FY24E	PROFIT AND LOSS						
Reported NPAT	\$m	(11.6)	(21.8)	4.4	11.1	15.1	Sales	\$m	103.0	112.4	155.8	177.6	195.2
Underlying NPAT	\$m	(12.4)	4.1	4.4	11.1	15.1	COGS	\$m	(93.9)	(110.6)	(119.7)	(130.4)	(141.5)
EPS Reported (undiluted)	¢	(2.5)	(3.4)	0.5	1.3	1.8	Gross margin	\$m	9.2	1.8	36.1	47.2	53.7
EPS Underlying (undiluted)	¢	(2.7)	0.6	0.5	1.3	1.8	Gross margin	%	8.9%	1.6%	23.2%	26.6%	27.5%
Underlying EPS growth	%	n/m	n/m	-18%	150%	36%	Other income	\$m	5.3	0.9	0.9	0.9	1.0
P/E Reported (undiluted)	x	n/m	n/m	17.7	7.1	5.2	Other operating costs	\$m	(25.4)	(23.7)	(25.9)	(26.6)	(27.2)
P/E Underlying (undiluted)	x	n/m	22.3	17.7	7.1	5.2	EBITDA	\$m	(11.0)	(21.0)	11.1	21.5	27.5
Dividend	¢	0.0	0.0	0.0	0.0	0.0	Depreciation & amortisation	\$m	(3.0)	(3.0)	(3.8)	(4.0)	(4.1)
Payout ratio	%	0%	0%	0%	0%	0%	EBIT	\$m	(14.0)	(24.0)	7.3	17.5	23.4
Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0	Net interest	\$m	(1.6)	(0.7)	(1.0)	(1.6)	(1.8)
Franking	%	n/a	n/a	n/a	n/a	n/a	Impairments / Associates	\$m	(1.7)	(4.6)	0.0	0.0	0.0
Gross Yield (Y/E/ spot)	%	0.0	0.0	0.0	0.0	0.0	Pretax Profit	\$m	(17.3)	(29.3)	6.3	15.9	21.6
Operating cash flow per share	¢	(3.0)	(4.9)	1.0	2.2	2.3	Tax expense	\$m	5.1	7.4	(1.9)	(4.8)	(6.5)
Price to operating cash flow	x	n/m	n/m	8.8	4.2	4.0	Minorities	\$m	(0.6)	(0.1)	0.0	0.0	0.0
Free cash flow	\$m	(10.7)	(8.5)	(6.1)	8.9	16.7	NPAT	\$m	(11.6)	(21.8)	4.4	11.1	15.1
Free cash flow per share	¢	(2.3)	(1.3)	(0.7)	1.0	1.9	Adjustments & Significant items	\$m	0.8	(25.9)	0.0	0.0	0.0
Price to free cash flow	x	n/m	n/m	n/m	8.8	4.7	Underlying NPAT	\$m	(12.4)	4.1	4.4	11.1	15.1
Free cash flow yield	%	n/m	n/m	n/m	11.3%	21.3%	BALANCE SHEET		FY20	FY21	FY22E	FY23E	FY24E
Book value / share	¢	14	9	9	11	13	Cash	\$m	10.6	0.9	1.3	10.2	26.9
Price to book (NAV)	x	0.6	1.6	1.0	0.8	0.7	Receivables	\$m	13.3	18.8	19.9	21.1	22.2
NTA / share	¢	12	8	9	10	12	Inventory	\$m	12.6	18.9	20.1	21.2	22.4
Price to NTA	x	0.7	1.7	1.0	0.9	0.7	Other	\$m	38.5	1.2	1.2	1.2	1.2
Year end shares	m	588.8	842.7	863.8	863.8	863.8	Current assets	\$m	75.0	39.7	42.4	53.6	72.7
Market cap (Y/E / Spot)	\$m	50.1	118.0	78.6	78.6	78.6	PPE	\$m	41.8	55.5	67.1	73.3	72.4
Net debt /(cash)	\$m	39.0	32.3	38.4	29.5	12.8	Intangibles	\$m	8.6	7.1	6.8	6.4	6.2
Enterprise value	\$m	88.3	149.5	116.2	107.3	90.6	Other / Deferred Tax	\$m	19.9	27.8	27.6	27.6	27.6
EV/Sales	x	0.9	1.3	0.7	0.6	0.5	Non current assets	\$m	70.3	90.4	101.5	107.4	106.2
EV/EBITDA	x	n/m	n/m	10.5	5.0	3.3	Total Assets	\$m	145.3	130.2	144.0	161.0	178.8
EV/EBIT	x	n/m	n/m	15.9	6.1	3.9	Accounts Payable	\$m	13.8	18.4	19.5	20.7	21.8
Net debt / Enterprise Value	x	44%	22%	33%	27%	14%	Borrowings	\$m	26.1	1.5	1.5	1.5	1.5
Gearing (net debt / EBITDA)	x	(3.5)	(1.5)	3.5	1.4	0.5	Other	\$m	0.7	0.9	0.9	0.9	0.9
ROE (Average Equity)	%	n/m	n/m	5%	12%	14%	Current liabilities	\$m	40.6	20.8	21.9	23.1	24.2
ROA (EBIT)	%	n/m	n/m	6%	12%	14%	Borrowings	\$m	23.4	31.7	38.2	38.2	38.2
Interest cover (EBIT / net interest)	x	(8.9)	(35.0)	7.4	10.7	13.1	Deferred tax liabilities	\$m	1.0	1.7	2.1	2.7	3.3
							Other	\$m	0.3	0.1	0.1	0.1	0.1
							Non current liabilities	\$m	24.8	33.5	40.4	41.0	41.6
							Total Liabilities	\$m	65.4	54.3	62.3	64.0	65.9
							Equity	\$m	159.3	174.6	179.1	179.1	179.1
							Retained earnings	\$m	(69.7)	(91.5)	(87.1)	(76.0)	(60.8)
							Reserves / Other	\$m	(9.6)	(7.2)	(10.3)	(6.1)	(5.2)
							Shareholder's equity	\$m	80.0	75.9	81.6	97.0	113.0
DIVISIONAL		FY20	FY21	FY22E	FY23E	FY24E	CASH FLOW						
Milk supply (MI)		111	146	155	168	180	EBITDA	\$m	(11.0)	(21.0)	11.1	21.5	27.5
Milk sold (MI)		14	16	5	5	5	Change in working capital	\$m	(1.1)	(9.6)	(1.2)	(1.2)	(1.2)
Mozzarella production (t)		9,128	12,150	15,450	16,738	18,025	Net interest	\$m	(1.6)	(0.6)	(1.0)	(1.6)	(1.8)
Cheddar & other hard cheese (t)		1,221	650	650	650	650	Tax paid / Refund	\$m	0.0	0.0	0.0	0.0	(4.9)
Whey production (t)		3,962	5,668	7,125	7,719	8,313	Other	\$m	0.0	0.0	0.0	0.0	0.0
Lactoferrin production (t) (liquid)		-	1.1	6.2	-	-	Operating cash flow	\$m	(13.7)	(31.3)	8.9	18.7	19.6
Lactoferrin production (t) (powder)		1.4	2.9	11.8	20.9	22.6	Stay in business capex	\$m	(1.5)	(1.6)	(2.8)	(2.8)	(2.9)
Lactoferrin liquid & powder sales (t)		0.5	2.0	18.0	20.9	22.6	Growth capex	\$m	(4.2)	(14.6)	(12.3)	(7.0)	0.0
Cream production (kl)		1,614	2,080	2,400	2,600	2,800	Asset sales (acquisitions)	\$m	8.7	39.0	0.0	0.0	0.0
Mozzarella A\$/t		5,830	5,455	5,750	5,808	5,866	Net investment / Other	\$m	0.0	0.0	0.0	0.0	0.0
Cheddar & other hard cheese A\$/t		7,175	6,000	6,500	6,500	6,500	Investing cash flow	\$m	3.0	22.7	(15.0)	(9.8)	(2.9)
Whey A\$/t		1,458	1,300	1,450	1,450	1,450	Change in Equity	\$m	11.5	15.3	0.0	0.0	0.0
Lactoferrin A\$/kg (liquid)		-	429	825	908	990	Increase/(decrease) in borrowings	\$m	7.8	(16.4)	6.5	0.0	0.0
Lactoferrin A\$/kg (powder)		1,298	650	1,250	1,375	1,500	Dividend / other	\$m	0.1	0.2	0.0	0.0	0.0
Cream A\$/kl		3,470	3,470	3,470	3,470	3,470	Financing cash flow	\$m	19.4	(1.0)	6.5	0.0	0.0
Dairy sales	\$m	90.4	102.2	142.6	162.0	177.9	Foreign exchange movements	\$m	(0.1)	(0.1)	0.0	0.0	0.0
Meat sales	\$m	12.4	10.1	13.1	15.5	17.1	Change in Cash / FX	\$m	8.6	(9.6)	0.4	8.9	16.7

Source: Company data, MST Access

Investment Thesis

Beston Global Food's (BFC) strategy, since listing, has been to become a leading Australian based supplier of safe, clean and healthy dairy and meat-based protein to the world's growing consumer markets, particularly in Asia.

BFC owns and operates a portfolio of food and beverage businesses focussed on dairy and meat.

The dairy segment owns production plants and uses milk to produce mozzarella cheese, lactoferrin (a protein found in bovine milk) that has significant anti-viral and anti-bacterial functions and properties which are essential in both boosting and modulating the human immune system and other dairy products for domestic and export markets.

The meat segment is focused on production of meat and related products for domestic and export markets.

Other operations include businesses developing technological software for tracking the provenance and authenticity of goods, as well as the production of spring water and related products.

See our previous research on BFC at:

<https://www.mstaccess.com.au/research-notes/>

Lactoferrin production has the potential to lift to 25 tpa in FY24

In June 2020, BFC raised \$10m to expand the lactoferrin production capacity at its Jervois plant from 3 tpa to 12 tpa.

In February 2021 BFC raised an additional \$15m via an entitlement offer to fund a further expansion of the lactoferrin production capacity to 25 tpa by March 2022 based on sourcing 180 ML p.a. of milk supply. Additionally, part of the extra capital raised has been dedicated to fund upgrades at the Jervois facility which experienced operational issues in FY21.

Near-term catalysts

- Increase milk supply from our current forecast of 155 ML in FY22 to 180 ML by FY24 to further utilise capacity at Jervois mozzarella facility.
- Increase lactoferrin production from current ~ 20 tpa in FY22 to 25 tpa by FY24, assuming BFC can source and contract 180 ML of milk supply.
- Source sales contracts for expanded lactoferrin production.
- Continue to grow order book for the Provincial Food Group (meat sales) from the forecast \$13m in FY22.

Valuation

Our base case 12 month forward discounted cash flow valuation is unchanged at \$0.30.

Risks to our valuation and forecasts

Key operational and project risks are:

- Competition and adverse weather conditions impacting on milk supply.
- Operational risk at dairy facilities including equipment failure, labour shortages and industrial disputes.
- Cost control and achievement of gross margin expansion.
- Regulatory risk in both home and export markets impacting production and or sales.

Key pricing and valuation sensitivities are:

- Key commodity pricing including milk, mozzarella, whey and lactoferrin.
- Australian dollar exchange rate against the US dollar.

Discount rate applied to forecast cash flows and terminal growth assumptions.

FY21 Result and outlook

Key points to note from the FY21 result:

- Milk supply up 32% to 146.0 ML.
- Sales Revenues up 9% to \$112.4m.
- Mozzarella production up 33% to 12,150 t.
- Lactoferrin production up 286% to 4.0 t.
- Full year statutory loss of \$21.9 m.
- If we adjust out the impacts of additional costs and sales lost from COVID and plant reliability related issues we determine an adjusted profit of \$4.4m

BFC has provided guidance for FY22:

- Contracted milk supply up ~6% to 152-158 ML, (MST 155 ML).
- Mozzarella production up ~28% to 15-16,000 t, (MST 15,500 t).
- Lactoferrin production up ~500% to 18.5-21.5 t, (MST 18 t).
- Revenue expected up ~54% to \$160-185 m (MST \$155.8m).
- Sales in the “Meat” division to be up to ~\$13m if the current opportunities being pursued are converted in line with pre-COVID levels. This implies sales guidance from the key “Dairy” division is \$147m-\$172m.

We have adjusted our sales and gross margin forecasts post the full result release.

Our sales forecasts are up 7% in FY22 (but ~3% down on the bottom of the guidance range) and 7% in FY23 primarily reflecting higher forecast mozzarella and lactoferrin production.

We have lowered our forecast gross margins achieved by ~1% which has resulted in our FY22 and FY23 earnings forecasts being up 5% and 0% respectively. (See Figure 4).

Figure 1 – FY21 reported earnings and MST forecast earnings revisions

A\$m	FY20		FY21		FY22			FY23		
	Reported	Rptd	Old	Delta	New	Old	Delta	New	Old	Delta
Milk supply (MI)	110.8	146.0	145.0	1%	155.0	155.0	0%	167.5	167.5	0%
Milk sold out (MI)	14.4	16.0	15.0	7%	5.0	5.0	0%	5.0	5.0	0%
Milk to factory (MI)	96.4	130.0	130.0	0%	150.0	150.0	0%	162.5	162.5	0%
Income	103.0	112.4	112.9	(0%)	155.8	145.9	7%	177.6	166.4	7%
Gross margin	9.2	1.8	9.8	(82%)	36.1	34.2	5%	47.2	46.2	2%
Gross margin	9%	2%	9%	(7%)	23%	24%	(0%)	27%	28%	(1%)
EBITDA	(11.0)	(21.0)	(16.2)	(30%)	11.1	10.7	3%	21.5	21.5	0%
EBIT	(14.0)	(24.0)	(19.4)	(24%)	7.3	7.0	5%	17.5	17.5	0%
NPAT	(11.6)	(21.8)	(14.1)	(55%)	4.4	4.2	5%	11.1	11.1	0%
Adjusted NPAT	(12.4)	4.1	(14.1)	129%	4.4	4.2	5%	11.1	11.1	0%
EPS ©	(2.7)	0.6	(2.0)	132%	0.5	0.5	5%	1.3	1.3	0%
P/E (x) <small>Note 1.</small>	n/m	22.3	n/m		17.7	21.2		7.1	8.2	
EV/EBITDA (x) <small>Note 1.</small>	n/m	n/m	n/m		10.5	11.5		5.0	5.3	

Source: Company data.

Key impacts to sales and a small impact on costs in FY21 resulted from COVID and plant related issues. We have tabled below the estimated impacts provided by BFC.

On our estimates the majority of impact was on lost sales (\$18.2m) with a small contribution to additional costs (\$0.8m).

Figure 2 – Sales and cost impacts form COVID and plant reliability issues

\$m	1H21	2H21	FY21
Lower sales due to lower production (lost margin)	(2.1)	(1.3)	(3.4)
Losses on disposal of milk	(0.8)	(0.1)	(0.9)
Production/yields below target	(3.1)	(1.6)	(4.7)
Losses on sale of down-graded product	(0.9)	(0.4)	(1.3)
Higher repairs and maintenance and quality control costs	(0.3)	(0.5)	(0.8)
Closure of old Lactoferrin plant	(1.1)	(0.5)	(1.6)
Lower sales prices	(1.6)	(2.5)	(4.1)
Reduced demand/shipping delays/ cancelled	(0.4)	(1.8)	(2.2)
Total pre-tax impacts	(10.3)	(8.7)	(19.0)
Revenue impacts	(10.0)	(8.2)	(18.2)
Cost impacts	(0.3)	(0.5)	(0.8)

Source: MST, Company data

If we then adjust the “Dairy” division FY21 gross margin calculation for the impacts noted above, we see what the adjusted sales and gross margin look like and our FY22 forecast. That is: Add back \$18.2m of lost sales to give an adjusted FY21 sales number of \$120.4m. Costs are largely unchanged at \$100.5m.

Figure 3 – Adjusted Dairy division sales and gross margins

\$m	FY21	Adjustments	FY21 Adjusted	FY22	Guidance
Milk supply (MI)	146.0		146.0	155.0	152 - 158
Income / l (\$)	0.70		0.82	0.92	1.05 - 1.17
Dairy Sales	102.2	(18.2)	120.4	142.6	147 - 172
Costs	(101.3)	(0.8)	(100.5)	(107.8)	
Cost / litre (\$)	0.69		0.69	0.70	
Gross margin	0.9	(19.0)	19.9	34.7	
Gross margin	1%		17%	24%	

Source: Company data, MST

Gross margin for the “Dairy” division would have been 17% versus 1% and gross margin would have been ~\$20m.

Given the cost of sales for the division is largely “variable” on a per litre of milk supplied we note below the reason for the large increase in forecast gross margin. We are forecasting gross margin lifts to 24% in FY22. NB: In FY22 we have stepped up operating costs of the plant by \$2m over and above AWE inflation given the increased staffing to run 24/7.

Figure 4 – Dairy division forecasts

Dairy total	FY19	FY20	FY21	FY22E	FY23E
Sales	75	90	102	143	162
Milk supply	103	111	146	155	168
Revenue per litre (\$)	0.73	0.82	0.70	0.92	0.97
Cost milk (\$/l)	0.50	0.55	0.54	0.52	0.52
Cost (\$m)	(52)	(61)	(78)	(81)	(87)
Other operating costs per litre	0.18	0.18	0.16	0.16	0.18
Other costs inflation				2.5%	2.5%
Other costs (\$m)	(19)	(20)	(23)	(27)	(30)
Total cost of sales	(70)	(81)	(101)	(108)	(117)
Gross margin	5	9	1	35	45
Gross margin (%)	6.9%	10.5%	0.9%	24.4%	27.9%

Source: Company data, MST

Note our forecast revenue per litre of milk is \$0.92 in FY22 is over 10% lower than the BFC guidance of \$1.05 to \$1.17.

We are forecasting BFC to:

- be NPAT positive in FY22, and
- free cash flow positive in FY23.

Figure 5 – Beston Global Food Group Financial Forecasts

A\$m	FY19	FY20	FY21	FY22E	FY23E
Dairy	75.4	90.4	102.2	142.6	162.0
Meat	6.5	12.4	10.1	13.1	15.5
Other revenue	2.9	0.2	0.1	0.1	0.1
Sales revenue	84.8	103.0	112.4	155.8	177.6
Other income	1.3	5.3	0.9	0.9	0.9
Total Income	86.1	108.3	113.3	156.7	178.5
COGS	(81.1)	(93.9)	(110.6)	(119.7)	(130.4)
Dairy gross margin	5.2	9.5	0.9	34.7	45.2
Meat gross margin	0.4	(0.1)	0.8	1.3	1.9
Other gross margin	(1.9)	(0.2)	0.0	0.0	0.0
Gross Margin	3.7	9.2	1.8	36.1	47.2
Dairy gross margin (%)	6.9%	10.5%	0.9%	24.4%	27.9%
Meat gross margin (%)	6.2%	(1.2%)	8.3%	10.0%	12.5%
Other gross margin (%)	n/m	n/m	n/m	n/m	n/m
Gross Margin (%)	4.4%	8.9%	1.6%	23.2%	26.6%
Other operating expenditure	(24.0)	(25.4)	(23.7)	(25.0)	(25.6)
EBITDA	(19.0)	(11.0)	(21.0)	11.1	21.5
D&A	(1.9)	(3.0)	(3.0)	(3.8)	(4.0)
EBIT	(20.9)	(14.0)	(24.0)	7.3	17.5
Net interest	(1.3)	(1.6)	(0.7)	(1.0)	(1.6)
Impairments	(9.6)	(1.7)	(4.6)	0.0	0.0
Associates	(0.8)	0.0	0.0	0.0	0.0
PBT	(32.5)	(17.3)	(29.3)	6.3	15.9
Accounting tax	5.2	5.1	7.4	(1.9)	(4.8)
NPAT	(27.3)	(12.2)	(21.9)	4.4	11.1
Minority interests	(0.3)	(0.6)	0.0	0.0	0.0
Profit to owners of BFC	(27.0)	(11.6)	(21.9)	4.4	11.1
Reported EPS (¢)	(6.1)	(2.5)	(3.4)	0.5	1.3
DPS (¢)	0.0	0.0	0.0	0.0	0.0

Source: Company data

Other key points we note are:

- BFC has restructured its banking facilities and now has a \$3m mortgage (fully drawn), a \$23m term loan (fully drawn), a \$13m equipment lease and hire facility (\$5m drawn on a \$13m facility) and \$15.3m a working capital facility which is drawn down by \$2.2m. We forecast BFC will end the year with net debt of \$38.4m (up from \$32.3m FY21), well inside its \$54m of funding facilities.
- BFC ended the year with ~\$27.5m of tax losses available to be utilised. Based on our forecasts BFC will not pay cash tax until FY24.

Beston Global Food Valuation

We have rolled forward our 12 month forward discounted cash flow valuation following the release of the FY21 accounts. Our valuation remains unchanged at \$0.30.

Our forecasts reflect an increase in milk supply to 180 MI by FY24 (up 23% on FY21) that will allow up to 25 tpa of lactoferrin production.

BFC currently has a FactSet two-year equity beta of 0.1. We have chosen an equity beta of 0.7 being the average of what we believe are the most comparable companies on the ASX being Clover Corporation (0.73) and Bega Cheese (0.61).

Figure 6 – Beston Global Food Discounted Cash Flow Valuation

Sum of discounted forecast cash flows	84.6	Target Debt / Enterprise Value Ratio	25.0%
Nominal long run growth rate	2.5%	Statutory Tax Rate	30.0%
Discounted terminal value	200.5	Equity Beta	0.70
Enterprise Value	285.1	Expected Market Return	10.0%
Less: Net debt	(38.4)	Cost of Equity	7.8%
Total Equity value	246.7	Risk Free Rate	2.5%
FY22 diluted shares on issue	842.7	Cost of Debt	4.0%
FY22 Value per share	0.29	WACC	6.5%

Source: MST Access

Rolling forward 12 months we get a 12-month forward valuation of \$0.30 in August 2022.

Figure 7 – Beston Global Food Discounted Cash Flow Valuation rolling forward

\$	Jun-22	Aug-22	Jun-23	Aug-23	Jun-24
Value per share	0.29	0.30	0.32	0.32	0.34

Source: MST Access

Comparable company multiples

We believe Clover Corporation and Bega Cheese are the most comparable listed companies listed in Australia.

As can be noted below if BFC reports in line with our forecasts it is trading at ~18 times FY22 earnings per share and a FY22 EV/EBITDA multiple of ~7 times. This would have it trading at a material discount to its closest local peers being Bega Cheese (BGA-AU) and Clover Corporation (CLV-AU) (see Figure 8).

Figure 8 – Beston Global Food Comparative company multiples

Company	Ticker	Price (LC)	Mkt Cap (A\$m)	PE FY1	PE FY2	EV/EBITDA (FY0)	EV/EBITDA (FY1)	EV/EBITDA (FY2)
a2 Milk Company Ltd.	A2M	5.89	4,347	36.0x	27.0x	17.1x	18.6x	14.1x
Bega Cheese Limited	BGA	5.51	1,667	20.3x	17.1x	15.8x	7.2x	6.5x
Clover Corporation Limited	CLV	1.64	273	29.4x	22.2x	16.2x	20.0x	15.6x
Average				28.6x	22.1x	16.4x	15.3x	12.1x
Average Bega / Clover				24.8x	19.6x	16.0x	13.6x	11.1x
Beston Global Food	BFC	0.091	77	17.7x	7.1x	n/m	10.5x	5.0x

Source: FactSet (9 February 2021), MST Access

Lactoferrin – The Earnings Growth driver

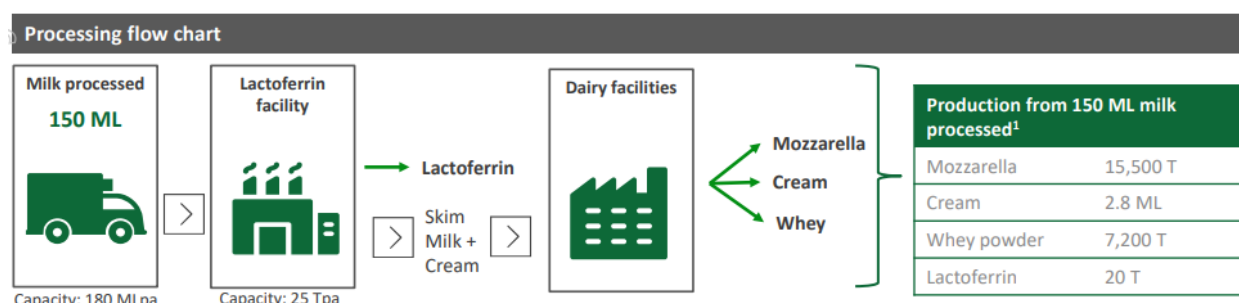
BFC made a decision in 2016 to acquire a dairy nutraceutical plant which had been built by an Australian public company (Australian Probiotics Ltd) adjacent to BFC’s dairy factory at Jervois, South Australia.

BFC acquired the plant at a fraction of its original cost. It was then effectively “moth balled” after acquisition until such time as the new mozzarella plant was installed and sufficient whey liquid feedstock was being produced (as a by-product of cheese production) to operate the plant efficiently.

BFC re-started the dairy nutraceutical plant in 2019 following the commissioning of the mozzarella plant and commenced the production of high value Lactoferrin. In order to rectify some operational issues apparent when operating the plant in the early months of 2020, BFC upgraded the plant and installed new resin so as to take the production of Lactoferrin to circa 3 tpa, with consistently higher levels of purity and quality.

Following the two capital raises BFC will now take lactoferrin production capacity to 25 tpa.

Figure 9 – BFC lactoferrin production has now reached 25 tpa from 180 ML milk supply



Key drivers to deliver long term value creation



Source: Company data

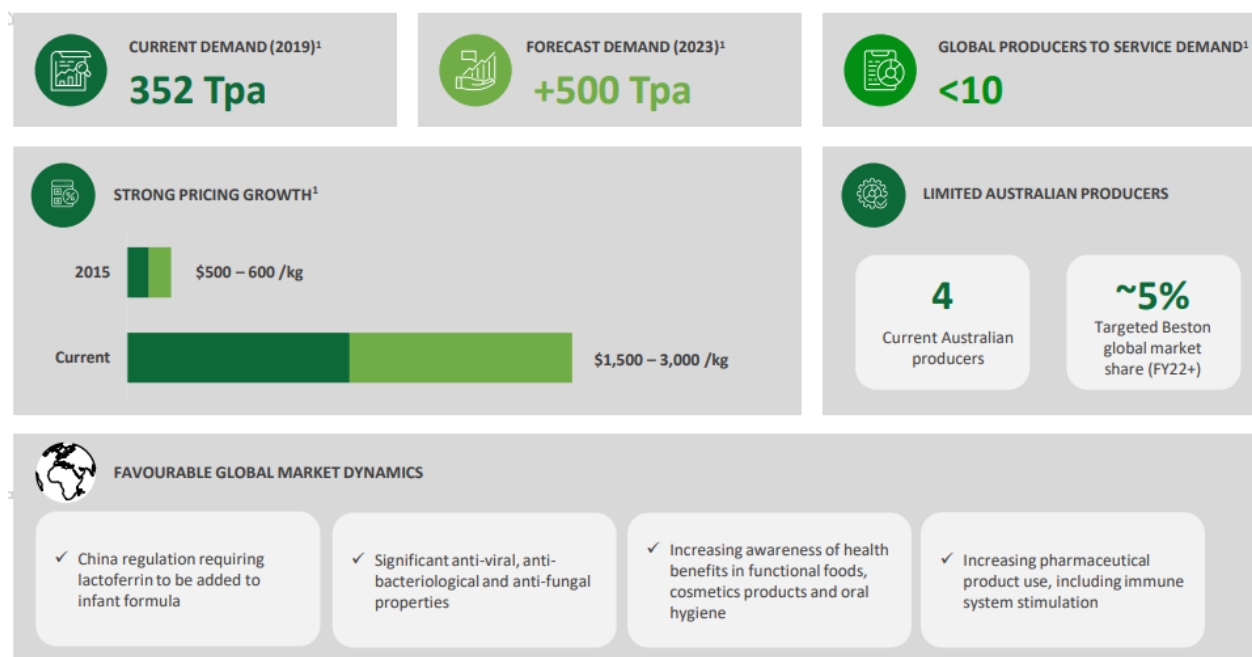
Lactoferrin has significant immune boosting and immune modulating properties, including anti-bacterial, anti-viral, anti-parasitic, and anti-allergic functions. The clinical significance of Lactoferrin has been established in numerous medical and scientific studies over the past 40 years (since it was first extracted from milk in 1961).

Since commissioning, BFC has added a freeze drying and milling facility (which was not part of the original plant acquired), thereby enabling Lactoferrin to be delivered to customers in final product, powder form.

Lactoferrin has a high global demand and commands high prices with high margins. It is one of some 20 proteins known to exist in milk along with many vitamins and minerals including calcium, potassium, phosphorus, iodine, and Vitamin B2 and Vitamin B12.

The global demand for (consumption of) Lactoferrin was 351.5 MT in 2019, around 50% of which was from Japan. The global price of Lactoferrin has increased by around ten-fold since 2015.

Figure 10 – Lactoferrin demand forecast to grow supporting strong pricing



1. Source: Strategic Insights into the Global Lactoferrin and Lactoferoxidase Market, UBIC Consulting 2020

Source: Company data

A recent study (2020) undertaken by UBIC Consulting concluded that “the market for Lactoferrin is just starting”. This is because:

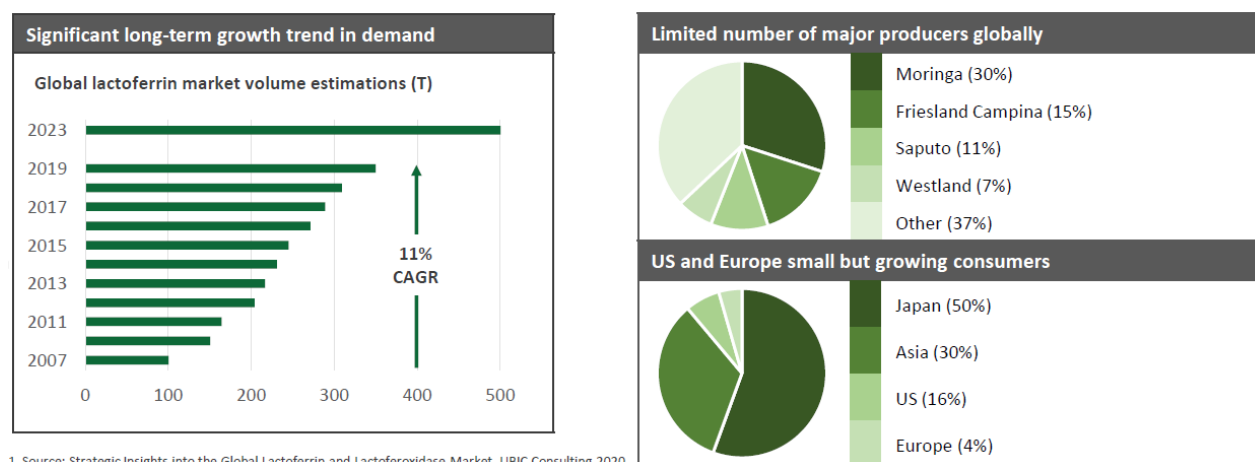
- China changed its quarantine rules in 2017 to allow Lactoferrin to be added to infant formula. As a result, Infant Milk Formula (IMF) which has Lactoferrin added is seen as being a superior product and commands a premium price. The study found that Lactoferrin from Australia and NZ is preferred by Chinese buyers, followed by Europe and then the US.
- While Lactoferrin has been authorized as a novel food ingredient in Europe for some time, it was only authorized as such in the USA in 2012.
- There is increasing awareness of the benefits of Lactoferrin in cosmetic and oral hygiene products, as well as in functional foods on the back of demographic and health care trends.
- Lactoferrin is increasingly being used in pharmaceutical products, especially in drugs used for immune system stimulation, health intestinal flora and as a carrying agent for some new cancer drugs (i.e. immuno-oncology drugs which enlist a patient’s immune system in the fight against cancer cells).

The UBIC study concludes that the demand for Lactoferrin post COVID-19 could jump by greater than 50% or 200 tpa by 2023.

The increasing interest of China in Lactoferrin in recent years may well explain much of the activity by Chinese companies in this space in Australia and NZ. For example, the largest Chinese Dairy company, Yili Group acquired the loss-making Westland Cooperative Dairy Co Ltd in August last year. Westland produces 10 t of Lactoferrin p.a.

BFC has determined that demand for lactoferrin is growing at a CAGR of 11% p.a. and demand may hit 500 t by 2023.

Figure 11 – Lactoferrin demand forecast to hit 500 tpa by 2023



Source: Company data

The dairy protein market is one of the most valuable markets in the dairy industry with naturally based dairy proteins (e.g. Lactoferrin, immunoglobulins, galacto-oligosaccharides etc) used in a range of applications in the health, nutrition and pharmaceutical industries including infant formula, adult formula (e.g. Sustagen), dietary supplements and a wide range of medicines.

Figure 12 – BFC will look to extract other whey proteins going forward

Sweet whey powder is a lower value whey product in its current form, yet it has the most potential to drive further value within the business.

The whey proteins are highly valuable when extracted and purified.

Alpha-lactalbumin
Most abundant whey protein in human breast milk, high demand in infant formula as abundant in essential amino acids and replicates breast milk

Immunoglobulins (IgG, IgD, IgE, IgF, IgM)
Boosts immune function and promotes healthy gut environment by binding some pathogenic bacteria

Bovine Serum Albumin
583 amino acids within its structure, used as a media in chemical labs with fatty acid binding properties

Whey Concentrates – D40, D90, WPC, WPI
Used in a variety of products, Infant Formula, health and sports powders and drinks

Lactoperoxidase
An enzyme isolated during the Lactoferrin extraction process. It has anti-microbial properties and used in cosmetics, oral hygiene and medical cleaning products

Osteopontin
Found in high levels within human milk, this glycoprotein has strong calcium binding properties (low levels in bovine milk)

Beta-lactoglobulin
Rich in branched chain amino acids (BCAA) and used in sports nutrition, aids in muscle repair and growth

Source: Company data

BFC management believes the contribution from the lactoferrin expansion to gross margins is significant (around 70% to 80%). Increasing the production of Lactoferrin will therefore add significantly to the overall profitability of the dairy factory and the bottom-line results of BFC.

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